

DOE Foreign Travel Trip Report

Title of Report: District Heating Reform and Methane to Markets: Ukraine
Report Date: June 26, 2008
Dates of Travel: June 15-26, 2008

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FTMS Trip Number:

Travel destinations: Kyiv and Cherkasy, Ukraine
Brief Purpose of the trip: To assist the Government of Ukraine in planning and structuring its district heating reforms; to participate in a training program on methane mitigation in natural gas pipelines.

People contacted and facilities visited:

Ministry of Residential and Communal Services: Minister Kucherenko, Deputy Minister Zapatrina, Deputy Minister Mazurchak, Division Head Gavriliuk.

Ministry of Fuel and Energy: Deputy Minister Makukha, Yulia Ibragimova from the Department of Strategic Planning. Minister Prodan also participated in the Task Force meeting on district heating reform.

Ministry of Labor and Social Protection: Deputy Minister Onishuk and Division Head Vitaly Mushinin

National Electricity Regulatory Commission: Commissioner S. Dunaylo, Leonid Symonenko, Director of Technical Department and other staff

NAER: O. Parshin, Deputy Director, and Mr. Grytsyk (Head of International Cooperation)

USAID: Peter Argo, Sarah Wines, Ira Birnbaum and Andriy Nesterenko

ARENA-ECO: Mykola Raptun, Sergey Surnin, Galyna Fedorova, Evgeny Gagurin

European Bank for Reconstruction and Development: Grzegorz Gaida and Sergey Maslichenko

World Bank: Dmytro Glaznyk and Tom Monostyrskyi

GTZ: Barbel Schwaiger, Project Director and Andriy Mitsal, Project Coordinator

Institute for Municipal Development: Olga Romaniuk, President, and Ihor Slobodenyuk, Executive Director

Ukrtransgaz: Mr. Roman Matolych, head of department, Tatiana Kononenko, energy saving department, Vitaly Talpash, energy saving department

Cherkasytransgaz: Olena Mandra, Natalya Novitska and other staff

There were also several other participants in the Task Force meeting on district heating reform, the Parliamentary Meeting on district heating reform, and the Methane Mitigation training seminar.

Abstract:

Ms. Evans worked with the Ukrainian Government and foreign donors on the framework for Ukraine's district heating reforms. This included planning discussion on the first Task Force meeting, in-depth discussion of how the Task Force would operate, and the role of various government agencies and donors in the reform process.

The Government took a major step forward in creating the Task Force on district heating reform and organizing its first meeting. They were able to do this quite quickly in response to a donor-driver request. The Task Force is headed by a very senior Ukrainian official, Mr. Haiduk, who is the head of the group of advisors to Prime Minister Tymoshenko. The donor community recommended such high-level leadership in order to facilitate coordination on the reforms between various government bodies.

While the framework provides a good start, the fact that it was created so quickly means that there are a few organizational issues that still need to be addressed. The most important among these is that the Government needs to plan Task Force meetings well in advance in order to be able to ensure adequate preparation, a high-quality agenda, and arrangement of participation lists. Several donors were not able to participate in the first Task Force meeting because the Cabinet of Ministers had not arranged for their building access, and most participants learned details of the meeting only one business day before the meeting.

The major outcomes of the first Task Force meeting were endorsement of a list of principles for the reforms and creation of three sub working groups on specific issues. These principles were prepared jointly by the government and the donor community and provide a good foundation for the Task Force's work. The sub working groups are necessary to draft documents and provide working level coordination on reform issues. However, the topics and participation in the sub groups may need to be revisited. The sub groups now cover: 1. Regional reforms and technical issues, 2. Energy efficiency in residential and administrative buildings, and 3. Tariff issues, regulatory reform and reform of social safety networks. This last group will carry the brunt of the work on the reforms.

There is a possibility that the other groups could become distractions, particularly if they focus on technology and engineering issues rather than the economic and policy mechanisms necessary to stimulate investment. The Ministry of Residential and Communal Services has agreed that all the groups will focus on mechanisms and policies, and not technology-related issues. Local governments, district heating companies and investors will be in a better position to make specific technical decisions when the right incentives and policy framework are in place; such issues are difficult to effectively work on at the more abstract national level as financing will not flow from the national government.

In addition, the Ministry of Residential and Communal Services sees the sub working groups primarily as document drafting institutions. Drafting is necessary, but so is coordination to ensure that draft documents meet the needs of various ministries. Lack of such coordination at the sub group level can lead to delays in adopting reform documents and challenges in implementing the reforms. The best example of this is the need to coordinate tariff reform with reform of the social safety network. As tariffs rise, the poorest must be reassured and supported so that they are not significantly hurt by the reforms. All the parties agree on this, which is excellent. However, there will be challenges in ensuring that the government has adequate funding for additional social support, and that the new formulas for calculating social support adequately balance the need to protect citizens and the need to promote rational energy use. This will likely only be possible with

close coordination from the start between the Ministry of Residential and Communal Services, the Ministry of Labor and Social Protection, the Ministry of Finance and the Ministry of Economy. Poor coordination of this issue could doom the reforms as people refuse to pay higher tariffs, or protest price increases.

During my work on the district heating reform project, I participated also in a parliamentary conference on the reform process. This was led by members of the opposition. Their views on the reforms are strikingly similar to the Government's official platform for reforms, though the Government and opposition continue to criticize each other sharply over the issue. The real divergence of views actually comes within the government, among bodies like the Ministry of Fuel and Energy and NAER who would like to see Ukraine switch from centralized district heating toward individual electric-fired heating. Prime Minister Tymoshenko formally decided in early May to back the proponents of district heating sector reform, instead of reform to dismantle district heating.

During the last several days of my trip, I also worked on our natural gas sector methane mitigation project, meeting with Deputy Minister of Fuel and Energy Makukha, and participating in a training seminar on methane mitigation for Ukrtransgaz staff. Deputy Minister Makukha was very supportive of work on methane mitigation in the natural gas sector, as he has been during previous meetings. We welcomed the idea of future training and a joint feasibility study to attract investment. Ukrtransgaz organized the training seminar. Ukrtransgaz is the Ukrainian state-owned company responsible for natural gas transportation in Ukraine; about 25% of Western Europe's natural gas transits through Ukraine. The seminar involved chief engineers and environmental managers from all parts of the Ukrtransgaz system participated. In addition, state-owned companies responsible for gas production, processing and distribution also participated. Cherkasytransgaz staff described their experience and work on methane mitigation. Other Ukrtransgaz subdivisions and state companies also described their efforts to prepare methane inventories and the challenges they faced in improving methane mitigation. Ukrtransgaz plans to issue a protocol on meeting results with several action points, including the need to create methane leak detection measurement and mitigation teams in each transportation subdivision of Ukrtransgaz.